

Testimony on HB 5963
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MEA is here to support Representative Melton's bill in concept, although we have two substantive suggestions.

1. First, we think that the 15% limit is too high, and that districts operate just fine with a fund balance of 5%, which I will talk more about in a minute.
2. Second, the bill would be based on general fund balance as of June 30, 2010. That probably won't work. Districts will just shift money out of the general fund on June 29, 2010 and back to the general fund after the audit comes out in November. You can avoid this problem by basing the offset on the fund balance as of the last Audit, which came out on November 15, 2009. You could adjust the 2008-09 fund balance to account for the revenue each district lost because of the 20j veto and the \$165 per pupil reduction before making the calculation, and that would work as a base for the offset in 2010-11.

Other than that, we support the bill for the following reasons:

- The state has as serious short-term and long-term school funding problem. There is not enough money to fund the foundation allowance this year and next year, and even when the economy recovers, the School Aid Fund has a structural deficit.
- This bill (with a threshold lower than 15%) solves the short-term problem.

- At the beginning of this year, K-12 districts and ISDs had \$1.9 billion in general fund balances.
- The entire School Aid Fund is only \$10.5 billion. You have a spreadsheet that shows every district's general fund balance as of the beginning of this year. (Notice that these figures are preliminary. CEPI expects to have audited numbers soon. You can get a more precise estimate when those figures are available.)
- There is enough money in districts' bank accounts to eliminate the \$165 cut and to increase the foundation allowance next year and the following year.

Having this kind of money in the bank is a problem because:

- Taxpayers believe that their taxes are supporting education. They have no idea that 20% of their education tax dollars get put in a bank while their children's AP physics, art, music, athletics, and busses are eliminated.
- It is a school district's job to use taxpayer money to provide education, not build up a bank account. If there were reasonable increases in funding each year, this would not be such a problem, but when there are reductions in funding and school districts eliminate programs, kids suffer permanently. They don't get to do third grade over again. A cut to education is a wound that never heals.

As this bill moves along, you will hear the following arguments from school business officials:

Districts will say that they need their fund balances because they don't get any state aid until October.

- The state has already solved this problem with the State Aid Note program at Treasury.

Districts can borrow as much as they need to meet their cash flow needs at below market rates. The current rate for borrowers is 1.24%.

Districts will say that they need their fund balances in case the roof blows off (boiler blows up).

- The state has also already solved this problem by preserving the ability of districts to ask for sinking funds and bond funds under Proposal A. Districts can build up enough money in a sinking fund to cover any unplanned physical emergency, or ask for a bond to restore old facilities and build new ones. **The state never intended for the foundation allowance to generate enough money to build and repair facilities, which is why Proposal A preserved sinking and bond fund millages.**

Districts will say they need their fund balances so that they don't have to cut education when there is a rainy day.

- **If they actually used their fund balances when there was a rainy day, there would not be \$1.9 billion in district bank accounts and I wouldn't be here.** This year should qualify as rainy. Rather than using fund balances to maintain programs, districts all over the state are slashing programs so that they can maintain their fund balances in case there is a rainy day. This bill would allow the state to tap into those rainy day funds to maintain and increase education funding for every student. It is unconscionable to allow school districts to permanently reduce the quality of a child's education while they sit on piles of taxpayer money.

Long Term

- While we support this bill, we know that this is a short-term solution. It is a band aid rather than a cure.
- MEA has been studying the long-term problem and hired an outside consultant to take a look at business tax incentives to see if the revenue loss from the incentives was worth the jobs created by the incentives.
- This report by The Anderson Economic Group shows where the state can close only the business tax abatements that don't work – and generate more money for education. This report examines only 8 business tax abatements, and finds that most do not achieve the goal of increasing employment or attracting businesses to the state. An

unbiased look at all tax abatements and tax expenditures in the state would generate enough revenue to fully fund education.

To sum up:

- We think it is a travesty for school districts to cut education programs when there is plenty of taxpayer money already available to fully fund the foundation allowance.
- We caution against relying on this one-time fix, and urge the legislature to come up with a way to close the structural deficit in the School Aid Fund.

Thank you for the opportunity to testify in support of this bill. Questions?

Standing Committee Meeting

Education, Rep. Tim Melton, Chair

Date: 03/18/2010

Time: 10:30 AM

Place: 519 House Office Building, Lansing, MI

Agenda:

Pending introduction and referral:

HB 5963 (Melton) School aid; other; deduction of general fund balance from district's state school aid payments; provide for.

